

Report on Area Administration Cost As required in Mental Health Reform Bill, Section 1.9, 122C-115.2(2)

The Area Administration Cost Workgroup was created to address, through recommendations to the Secretary, DHHS, HB 381, Section 1.9, 122C-115.2(2):

- (a) Reasonable administrative cost based on uniform State criteria for calculating administrative cost and cost or savings anticipated from consolidation.
- (b) Proposed reinvestment of savings toward direct services.
- (d) Based on rules adopted by the Secretary, method for calculating county resources to reflect cash and in-kind contributions of the county.
- (e) Financial and services accountability and oversight in accordance with State and federal law.
- (h) Use of local funds for the alteration, improvement, and rehabilitation of real property as authorized by and in accordance with G.S. 122C-147.

The workgroup is comprised of representatives from the DHHS Controller's Office, DMH/DD/SAS, DHHS Budget, Planning & Analysis, Dept. of State Treasurer (Vance Holloman and Jim Burke representing the Local Government Commission), County Commissioners' Association Programs (Ken Windley, Davie County Manager; Tom Lundy, Catawba County Manager; and Mike Ruffin, Durham County Manager) and DMH/DD/SAS area programs (Blue Ridge, Piedmont, Sandhills and Smoky Mountain). In addition to meetings in Raleigh, other meetings have been held in Winston-Salem and Graham to encourage statewide participation. Minutes have been posted on the DMH/DD/SAS web page and distributed to participants to keep everyone informed.

Over the last four months, the Area Program Administration Cost Workgroup has created a clearly defined and classified Chart of Accounts that is being recommended for adoption. This was done in order to standardize the Chart of Accounts to create uniformity and consistency in Cost Finding Reports. Implementation, if adopted, will be mandatory effective July 1, 2002 and will apply to qualified private providers as well as to area programs. Area programs will be encouraged to implement voluntarily, as many of the changes as feasible in SFY 02 in anticipation of mandatory implementation July 1, 2002.

Considered in this process was the intent of the provision to define which cost should be included in administration as well as to analyze the scope of previously reported administrative cost figures. In past cost findings, the percentage of administrative cost equaled the sum of expenditures placed in the Area Administration costs and General and Support costs categories divided by total area program expenses. Administrative costs varied greatly from area program to area program based on how expenditures were assigned to the different cost centers in the actual report. The cost finding allowed area programs to report all expenses in Area Administration and General and Support cost centers (allocated out to service cost centers) or to charge expenses directly to the service cost centers. There was not a finite list of items given to area programs for placing or assigning costs to particular cost centers. Under the proposed new Chart of Accounts, many of the costs previously classified as General and Support are actually considered indirect costs based on cost reports for adult care homes and other Medicaid rate setting processes.

Several meetings between staff of the DHHS Controller's Office, DMH/DD/SAS, DHHS Budget Office, Planning & Analysis and Division of Medical Assistance (DMA) shaped the initial matrix the Area Program Administration Cost Workgroup used to define the administrative cost classifications and provide uniformity in cost assignment.

The Guidelines for Reporting Cost between Administration and Direct Cost-of-Care Matrix was reviewed at each meeting of the Area Program Administration Cost Workgroup. Each cost type listed on the matrix was thoroughly discussed as to whether the cost was indirect, direct (*cost of care*) or unallowable. Indirect costs were further distributed to administration or direct cost of care based upon the type of facility (*e.g. residential, clinical/ day program, administrative*). Those indirect costs falling into the administrative category are those that are targeted to fall within the legislatively mandated administrative cap set forth in SB 1005, Section 21.65. Consideration was given to the different types of facilities and classification of the accounts.

Given the complexity of the issue, the need to coordinate practices and policies among funding agencies, the DHHS Controller's Office researched how DMA and Division of Public Health (DPH) treated a number of cost items such as advertising, data entry operators, data processing coordinators and programmers, licenses and supplies on the respective divisions' cost reports. Consistency within the cost reporting process was an underlying objective.

To support the classification of items, it was determined that personnel position expenditures would be allocated to administration and direct care based on functions of the position. A personnel position list has been developed with each position defined as direct, indirect, or either (*depending on functions of the position and not merely on position title*). Though the list is not meant to be all-inclusive, it is provided for ongoing guidance for the classification and allocation of any position not included.

An item open to additional discussion is the allocation of administrative costs from County Cost Allocation Plans. Costs included in the county cost plans will be allowed for inclusion in the area program cost finding process. This cost, sometimes referred to as "in-kind" county contributions, will be allowed only if included in that county's Cost Allocation Plan. DHHS Controller's Office staff will meet with Maximus, the preparer of county cost allocation plans, to develop crosswalks from the county chart of accounts to the area program chart of accounts in order to track these costs for the cost finding process.

The workgroup will continue to meet to determine the cost savings of moving to a streamlined administrative cost process and consolidation of area programs as required in HB 381, as well as other issues previously noted. Due to the varied methodologies area programs utilize for reporting administrative costs, the measurement of the cost benefit would not be reasonably attainable until the implementation of the new reporting procedure. This discussion must also be coordinated with the implementation of the Local Business Plans and area/county program (Local Managing Entities, LME) functions. As service provision is transitioned to the private sector, maintaining adequate funding for administrative functions will be critical.

Recommendations adopted by the Workgroup have been based on broad consensus building and all recommendations have uniform support from all Workgroup members.